

THE COST OF CUBA TO THE SOVIET BLOC

Background

The itemized cost of Cuba to the Soviet bloc is the following:

Estimated Cost Of Communist Bloc Aid to Cuba

1960-1968

| <u>Type of Aid</u> | <u>Amount</u> | <u>(million US \$)</u> |
|----------------------------------|--------------------|------------------------|
| Project and technical assistance | 60 | |
| Commercial trade credits | 300 | |
| Sugar premiums | 250 | |
| Military assistance* | more than 500 | |
| Total | more than 1,100 ** | |

* Does not include the cost of equipment or personnel introduced into Cuba and later removed.

** More than \$1 billion of which has come from the USSR.

Project Aid

Castro's government has been extended \$469 million in long-term credits by the bloc. According to Cuban claims, more than 200 factories or other installations are to be built with bloc assistance. Projects to be underwritten by the USSR include a steel mill, a nickel plant, and an oil refinery. In addition, in 1962 the Soviet Union undertook to aid the Cuban Fishing Industry by supplying five fishing trawlers and agreeing to construct a fishing port in Havana Bay. Among the plants promised by the European satellites are factories for the production of textiles, metal products, refrigerators, pencils and kitchenwares, and several power plants. Communist China is to assist in establishing farm stations as well as projects for manufacturing. While several surveys and other exploratory studies by bloc specialists have been completed and many of the bloc projects are under way, only a few small projects have been finished.

Technical Aid

Bloc assistance has been instrumental in other ways, however, in providing assistance for the Cuban economy. Many of the 2,000 or more bloc technical personnel have been employed in existing factories and plants, filling part of the gap created by the departures of the supervisory, technical, and administrative personnel who had been running these establishments.

Trade Credits

The most important form of assistance currently being extended to Cuba by the bloc is represented by the large import surplus which Cuba is running in its trade with bloc countries, particularly the USSR. This import balance, which probably exceeded \$200 million in 1962, in part represents a form of medium-term credit extended to Cuba.

Sugar Premiums

When promising to substitute for the US in taking Cuban sugar exports the Soviet bloc agreed to pay a price of about four cents per pound. The world price of sugar has been about 2.5 cents per pound during most of the ensuing period, with the Soviet bloc paying Cuba a premium of the 1.5 cent difference. The premium price has, in fact, been paid for most, but not all, of the bloc purchases of this sugar. The USSR, moreover, agreed to pay in convertible currencies one-fourth of the total charges for its principal contracts for Cuban sugar. Consequently, a major part of its premium payments have been made in convertible currencies.

Military Aid

Estimates of the cost of bloc military support for Cuba include the (1) cost of equipment turned over to Cuba, (2) charges for training of Cuban personnel -- both inside and outside Cuba --, (3) cost of equipment held by Soviet units in Cuba, and (4) the cost of maintaining Soviet forces in Cuba. Transportation costs are also included. The estimates are minimal.

Aid Fulfillments

Actual bloc outlays on project and technical assistance to date amount to an estimated \$60 million. Commercial trade credits so far total an estimated \$300 million. If to these figures are added estimated premiums on sugar purchases (\$250 million), aggregate economic aid (excluding all forms of military assistance) has amounted to an estimated \$610 million. Military aid so far has amounted to more than \$500 million, not including material brought into Cuba and later removed.

Uneconomic Trade and Transport

Despite complicated internal adjustments that are intended to minimize the losses in the sugar trade, the Soviet bloc has not been able to offset entirely the costs of buying Cuban sugar in such large volumes. Production plus imports of sugar in the bloc have risen by about 4 million tons annually, or about 40 percent. Exports have been increased by about 500 thousand to 1 million tons annually and sugar beet production for fodder use has been increased. These adjustments have provided the Soviet bloc

with convertible currencies and have alleviated in some measure serious problems in livestock feeding. The added sugar availabilities also have enabled the Communist bloc to raise sugar allotments to their long suffering consumers. These are moderating considerations; they do not entirely dispel the strong suspicion that importing so large a volume of sugar from Cuba has been most costly to the Soviet bloc.

Transferring merchant vessels of the Soviet bloc to the Cuban run has been a cost only in terms of managerial efficiency. Ships chartered from the free world to use on routes where the Soviet bloc ships being diverted to Cuban traffic had previously been used. Rates have not risen, for the world shipping industry has considerable excess capacity. Total requirements for free world charters by the bloc have not increased. But the Soviet bloc now has less flexibility in employing its overall shipping availabilities -- flag vessels plus charters -- and must be experiencing added costs in terms of loading delays, cross-hauling, partially loaded ships, and trips in ballast. A major factor in the stopped up effort to enlarge the merchant marine of the Soviet bloc is the desire to counteract inefficiencies of these types.

US Policy

- US policy measures to increase the cost of Cuba to the bloc include:
- (1) a section, 107, in the Foreign Aid Act of 1962 prohibiting US aid to countries providing shipping or giving economic or military assistance to Cuba.
 - (2) a National Security Council Directive barring ships engaged in Cuban trade from carrying cargoes financed or sponsored by the US Government.
 - (3) diplomatic approaches to free world governments with the objective of obtaining a voluntary shut-down on shipping for as well as trade with Cuba.

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Cuba has already cost the bloc more than \$1.1 billion for economic and military aid. An additional incalculable amount was lost to the Soviets in the missile buildup and subsequent withdrawal. The Soviet bloc, moreover, has absorbed large quantities of Cuban sugar and has had to transfer some of its merchant shipping from other uses to Cuban routes; both adjustments, though not measurable in monetary terms, have been costly to the Soviet bloc.

The policy of the US has been to add to these costs whenever possible in order to make continued Soviet presence less attractive. Specific measures to this end have included (1) steps to deny free world charters to Soviet bloc and Cuban shippers and (2) efforts to isolate the Cuban economy from the free world and thus make it heavily dependent on the Soviet bloc. For the most part, however, the costly support of the Soviet bloc has been necessitated by the bad management of Cuban economic planners.